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Government Restriction and Promotion of Foreign Trade

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REFLECTION will convince one that war or fear of war lies back of nearly all advocacy of protective tariffs, subsidies to merchant marines, bounties to exports and most other forms of direct and indirect encouragement or restriction of trade in so far as such advocacy is for the public welfare rather than for special interests. If all danger of war is removed, some parts of the infant industry and allied arguments will remain, but most of them and practically all of the other arguments in so far as they are alleged to be economic rather than military fall to the ground. In this class are the home market and wage arguments with their several variations.

The military argument has usually been called political rather than economic, though in reality it may be considered just as much of an economic argument as any other. Expenditures for armies and navies have drained the resources of nations and peoples from time immemorial. It is true that this has meant an awful waste of money and strength and blood and in that sense it has not been economical. But an army and a navy may be considered economic, and not merely political as opposed to economic, in much the same way as police, firemen, shepherds, safety vaults, locks, roofs, clothing and other protective means and devices are economic. Where there is danger of fire, a wise man is willing to spend something to prevent it, to lessen its damage or, if it actually occurs, to help recoup his losses. In certain cold and humid regions, farmers go to great expense to protect grain and stock by building shelter, whereas in dry and

warmer regions, much less or no shelter may be built for equally valuable property.

EXPENSES FOR MILITARY PROTECTION

One might ask, what expense for military protection is justifiable? That depends upon the cost of the protection and the relative value of what is to be protected. Ten dollars per capita per year might or might not be justifiable for police protection. Few cities would consider \$1,000 per capita per year justifiable, even though it were known in advance that the higher expenditure would result in a 10 per cent decrease in the number of priceless lives lost through murder. Likewise with the diversification of industry, the protection and development of key industries, the subsidizing of a merchant marine and all other subsidized activity that looks towards national self-sufficiency and preparation for war or against war and its effects. We should remember that in so far as any such preparations are economical immediately and for their own sakes, they need little or no subsidizing; that most of them involve a cost; in some cases, very great and lasting costs. Before we assume these costs we should inquire very carefully whether the costs involved are likely to be justified. What will be the direct and indirect costs in adopting the proposed protection entailed? What is the danger of war? What losses will be probable in case of war? Will this proposed preparation really be effective? Are there more effective ways in which we can direct our efforts and resources?

All of these questions involve personal judgments concerning highly problematical things and, consequently, it is impossible to arrive at a definite and exact scientific determination of many of them. The danger of war and the best methods of preventing it or of minimizing its evil effects are in large measure matters of individual opinion. If you think they are greater than I do, it is not likely that I can prove to your satisfaction that you are wrong and I am right. You are willing to go to a greater cost for insurance than I am. What the masses of people in the United States will consent to is likely to determine how far we will go in this or that direction, though their mass judgment may be very incorrect. The better the masses are informed, however, the more the probability of wise judgments.

But the judgment or the feelings of the masses are likely to be determining not so much in the initiating as in the checking of policies initiated by leaders, especially by the leaders of industry. Looked at from certain points of view, we may say that we owe modern civilization to the leaders of industry. In their search for profits they have increased the welfare of the whole race but they are also chargeable with many backsets. One of the most far-reaching fallacies connected with the whole free-trade and laissez-faire school is the implication that men in pursuing their own interests promote thereby at the same time the interests of society at large. Perhaps this is generally true, and Adam Smith and others who preached revolt against the excessive governmental restriction of their day did the world a good service. But there are many exceptions to this rule. While the farmer benefits himself and society at large by producing large crops of corn and wheat, and the shoemaker does likewise for himself and

society when producing shoes efficiently and cheaply, it does not follow that because the saloon-keeper's business is profitable to him that it is also profitable to society, nor that because a trust increases its profits by limiting supply rather than increasing it that such a practice is beneficial to society, nor that because a railroad makes profits by preventing other railroads from getting good terminal sites that society at large is benefited thereby.

Similar arguments by protectionists are no sounder than those used by devotees of laissez-faire. Because protection benefits some industry, or the men who conduct it, is no proof that it benefits society at large. The subsidy that is given to the industry is frequently subtracted in full, or more in the form of higher prices, from the consumers of the nation at large. If the protected industry is efficient as compared with other industries, it needs no such subsidy and, if it is given, it is an out and out contribution of net profit to the proprietors; if the industry is inefficient so that it needs such a subsidy, then the gift of consumers goes to pay for inefficiency of proprietors who do not gain as much as the consumers lose. The nation sustains a net loss.

Many manufacturers realize that they can extend their plants and pay better wages if they have protection, hence they argue that business in general and wages in general would be better if protection were generally practised. But this is an argument from the specific to the general that leads to false conclusions. One might as well make the following argument: If the United States Treasury would donate to my business \$100,000 each year, I would be more prosperous, and could extend my plants and employ more labor at better wages. If this is true of me it would be true of my neigh-

bor in his business also, and of his neighbor and so on until it included all the businesses in the United States, or the world. But one asks, where do all of these hundreds of thousands of dollars which the Treasury hands out to manufacturers come from? From the pockets of the people in the form of taxes or higher prices. How much better off are they by reason of high wages if all the increase in wages comes out of taxes or prices which they themselves paid? If there is a common pool into which every one puts money and out of which every one takes money, the ones who can get out more than they put in are better off because of the arrangement; the ones who take out less than they put in are necessarily worse off. Society as a whole neither gains nor loses anything, assuming there is no expense attached to running the management and no leakage from the pool. Usually, there is some expense involved in operation, and the greater the number and the more inefficient the industries that are sustained (the others need no sustaining), the greater the leakage and the loss to society in general, even though particular industries do manage to get away with more than they put in and even though they divide part of their gain with their employes in the form of increased wages. If they are bona fide infant industries well adapted to the country, then later on they can pay back into the common pool enough to make up for the excess they previously took out.

This reasoning on the part of industries that want protection is very similar to make-work arguments on the part of labor which the manufacturers are very quick to condemn. Laborers see that if they limit their output, it will take more laborers to do a given amount of work; and the more laborers the employers will need, the

higher the wages all laborers will get. Any employer can point out the fallacies in the argument without hesitation, but the laborer has frequently been led to follow the manufacturer with his full-dinner-pail fallacy.

Industry and commerce in all of the leading nations of today are organized for profit, for the personal profit of owners and managers, and government is considered the handmaiden of business rather than business the handmaiden of government. Business men seeking their own profit, and often really thinking that they are also promoting the interests of their country, take steps and advocate business and government policies that inevitably provoke war. As regrettable as it may be, the common attitude of the business man as well as of the laborer regarding his own business or work is to make the most possible for self and to think very little about social welfare. In matters that do not touch his profits or wage immediately, he may have a fairly well developed social conscience, but in these immediate matters he frequently has little effective regard for the public welfare, or he can easily argue himself into believing that what is good for him is the thing for him to do. Probably we are all much alike under similar circumstances, but it is important for social welfare that there be a large enough body of intelligent and socially-minded opinion on each vital matter of policy to prevent interested parties from leading the nation into pitfalls. Frequently contrarily interested parties are even more effective than disinterested and unbiassed ones.

Prior to the Spanish-American War, the people of the western hemisphere had been so busy exploiting the resources of a new continent that they paid little attention to old world matters. Their industries had been pre-

dominantly extractive, though for about a century the people of the United States had been developing manufacturing rather rapidly. These new manufacturers had to contend with those of Europe, especially with those of England, and they called for protective tariffs to shut their competitors out of the home market. By the end of the nineteenth century, leading United States manufacturers had progressed to a point where they could take care of the home market; in fact, many of them were producing a surplus for export. America's comparative isolation was at an end.

IMPORTANCE OF FOREIGN MARKET

The importance of the foreign market has been dramatically impressed upon the people of America since 1914. The interests of American manufacturers, farmers, laborers, merchants, of everybody are seriously affected by the inability of Europeans and others to buy what they vitally need. Many of our people are beginning to see as they never saw before that America can not be isolated and commercially independent, that order and credit and the production of goods in Europe are important factors in determining American welfare. Some see also that if European and other countries pay their debts to the United States that the United States must have a surplus of imports rather than a surplus of exports as prior to the war. In fact, if the principal of the debt is neither increased nor decreased and only the interest is paid, the United States must accept a surplus of imports and have a so-called "unfavorable" balance of trade. That is what some call the penalty and what others consider the advantage of being a creditor country. Americans are likely to hold up their hands in horror when the flood of imports begins to arrive. The cry for

protection may be even louder than it is now from some sections. But why should a country or a man object to having a debtor pay his debts? He must pay, if he pays at all, in goods or in money; and of what use is the money unless we can purchase goods (imports) with it?

Many former protectionists are seeing too that checking imports checks exports. A country town can not sell to surrounding farmers unless the farmers can sell what they produce. If the town puts a tariff upon imports from the country, and thereby checks farmers' sales to the townspeople, it at the same time checks its merchants' sales to the farmers. Foreigners can not afford to buy from us indefinitely unless they can sell to us also.

Retaliation by the foreign tariff makers is not to be overlooked either. France has recently imposed upon automobiles the same import duty as does our Underwood tariff law of 1913. American automobile manufacturers have recently urged lower duties here with the hope of having reciprocal action taken by European countries. Dispatches from Washington state also that similar positions will be taken by American manufacturers of steel, typewriters, cash registers, sewing machines, adding machines, boots, shoes and other exports.

Free-trade doctrines by northern interests heretofore in the vanguard of high protectionists and the South clamoring for cotton and sugar tariffs are among the least of the new situations to confront the Republican leaders. Powerful commercial groups are to urge upon Congress that foreign markets and not protection are essential.¹

At the same time large American agricultural interests are asking for the

¹ Washington despatch to Minneapolis Tribune, Dec. 30, 1920, p. 10. This reminds one of the British free-trade movement about a century ago.

Government to arrange to give Europe credit and to pass tariffs shutting out importation of wheat, wool, sugar and other agricultural products into the United States. Senators and congressmen from eastern states say that their manufacturing, labor and other constituents need protection from falling prices just as much as do western and southern farmers. The above instances illustrate the fact that most legislation, whether for the purpose of encouraging or restricting foreign trade, or whether for some other purpose, commonly originates with and is put through by interested parties and sections, usually producers rather than consumers, and that it is opposing producing interests that check their proposals rather than any great body of actually disinterested champions of the social welfare. This is not to deny that there are such champions, but few of them make laws. This does not mean, however, that lawmakers are especially different from other people under similar conditions.

CONCLUSION

What, then, is our conclusion as to what the United States Government should do to encourage foreign trade? In general, that it should count the costs of any proposed action, consider the probable results and decide whether the results will probably justify the costs. We should not let special interests drag the country into doing something which may be of benefit to those particular interests, but injurious to the country as a whole. *Laissez-faire* may be just as disastrous as regulation; discrimination is necessary. Effectiveness in production is much more important than artificial encouragement of continued inefficiency. The possibility of war must not be overlooked, but doing away with activities which provoke war will

lessen the costs of preparing for possible war, to say nothing of the costs of actual war.

To be somewhat more concrete. The organization of our departments of state and commerce and other governmental establishments having to do with foreign trade can be much improved. Coördination, a trained service, adequate salaries, consistent policies, foresight and ability applied to the problems can do wonders. We might give a few illustrations relative to matters of general policy. In the opinion of the present writer, the United States might well encourage such infant and key industries as the new dye and chemical industries, but protection to American producers of steel, shoes, cotton, wool, wheat and many other products is unnecessary and unwise. A tariff of thirty cents per bushel on Canadian wheat, which is advocated by many, seems as ridiculous as a means to hold up prices of United States wheat when both Canada and the United States are exporting a surplus. How will it affect the world or Liverpool price which practically all agree determines the price in both the United States and Canada?¹

The United States may well go to some expense to encourage an American merchant marine, partly because it promises some real commercial advantages that may repay part or all of the costs of temporary protection or subsidy, but chiefly as a means of defense, if needed. If it were not for the possibility of war the marine might be left to stand on its own bottom. The fact that we now actually have a merchant marine makes the situation different from what it would be if the question were shall we or shall we not build one. If it is to remain an Amer-

¹ The writer does not contend that it will have no result, but the effect would be principally upon millers.

ican merchant marine, the great problem is how are we to subsidize it and get the results we want, for all subsidies involve great dangers. Limitation of sale to Americans involves a subsidy to the buyers in the selling price if that is lower than it would be to foreigners. If it is not lower, then the limitation is useless. No other subsidy seems necessary for vessels sold by the government to private parties, if the government follows a consistent policy from the start, because the buyer would discount all disadvantages in the purchase price. It is both claimed and denied that the La Follette Seaman's Act handicaps the operation of American ships. There are numerous other alleged disadvantages and advantages of American construction and operation. The writer can not discuss all of these; nevertheless, he believes that it is practical and wise to work out a merchant marine policy in connection with our commercial and naval policies.

The United States is much interested also in the peace and prosperity of European and all other countries. She is especially interested in the settlement of the reparations question and the establishment of better credit conditions in Europe, also in what foreign and commercial policies the various nations are to pursue in the future. She is interested in the elimination of unfair commercial practices by the traders of various nations including her own. The United States does not permit every interest in the United States to follow its own sweet will regardless of the rights of others. An Interstate Commerce Commission, a Federal Trade Commission, numerous other federal and state commissions, courts and officials are engaged all the time in preventing unfair practices in order to promote the general welfare. The anarchy in the inter-

national field where every nation is sovereign and wants to pursue its selfish national interests endangers civilization. The leading nations of the world threaten to wear themselves out fighting each other as did the Greek city and later nations; in fact, as have practically all civilizations before us. A proper international organization which has its beginnings largely in mutual conference and publicity can accomplish much and form the basis of a more perfect organization later.

The United States is in a peculiarly strategic position to promote wiser commercial policies throughout the world. But her financial strength, her large markets, her great natural resources, everything she has, should not be used as clubs to secure favors but rather as means of eliminating discriminations, unfair practices and selfish policies. The United States has stood for the open door in the Far East. Let her stand for this policy consistently, not only in the Far East, and not only when other nations threaten to close the door, but also when she herself has control of the door. Privilege and discrimination are at the root of war and war is the greatest foe of commerce and of civilization. Civilization can not exist without commerce and can not progress without increasing commerce. The writer does not believe that wars are ended any more than he believes that all murders and robberies are ended, but he believes they can be minimized and in the course of time be made as improbable as wars between our federal states are at present. The United States Government can do nothing greater to promote foreign trade than to promote world peace; and if our statesmen rise to the occasion, we can do much in this direction despite the fact that we have been wasting much precious time and good will.